September 15, 2021

Indraprastha Gas Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term/Short Term Limits-Fund Based/Non-Fund Based	3577.00	4000.0	[ICRA]AAA (Stable) / [ICRA]A1+ reaffirmed
Long Term/Short Term Limits-Unallocated	423.00	-	-
Total	**4000.00**	**4000.0**	

**Instrument details are provided in Annexure-1*

Rationale

The rating action factors in Indraprastha Gas Limited's (IGL) strong business profile with exclusive position in the city gas distribution (CGD) business in Delhi (or National Capital Territory, NCT) and infrastructure exclusivity (up to December 2023) for its NCT operations. The marketing exclusivity available to IGL in the NCT region expired in December 2011. ICRA, however, expects that the company will continue to enjoy a dominant market share because of its first mover advantage and significant entry barriers for third party marketers. IGL benefits from its strong parentage (GAIL India Limited; GAIL and Bharat Petroleum Corporation Limited; BPCL)[1] in terms of technical/management support and operational synergy through its tie-up with GAIL for sourcing natural gas for meeting a sizeable part of its requirements. Additionally, the ratings factor in IGL's strong financial risk profile as by robust profitability with healthy accrual generation, debt-free status and its strong return and credit metrics. Emanating from these strengths, the company's liquidity position remains robust, with sizeable surplus cash/liquid investments. Despite significant dip in sales in Q1 FY2021 due to the adverse impact of the pandemic/nationwide lockdowns, IGL reported strong recovery in sales with an operating income (OI) of Rs. 4,940.8 crore in FY2021 (Rs. 6,485.3 crore in FY2020). However, the overall cash accrual generation for FY2021 was largely in line with the previous fiscal, supported by sizeable margin expansion due to lower gas prices during the fiscal. It recorded some moderation in revenue in Q1 FY2022 owing to the second wave of the pandemic, though the impact was significantly lower as compared to the first wave. IGL is expected to report steady growth, driven by the favourable demand outlook and growth prospects for the compressed natural gas (CNG) and piped natural gas (PNG) segments over the medium to long term.

RLNG prices have firmed up in the recent quarters and domestic gas prices are also likely to witness a sharp increase in the near term. While this is likely to lead to some moderation in margins, the impact is expected to be mitigated, to a large extent, as the company has long-term tie-ups for sourcing of gas and would be able to absorb the same through price revisions in the various business segments.

IGL's CGD operations in Delhi, Noida, Greater Noida and Ghaziabad have been authorised by the Central Government. The Government has authorised IGL for Faridabad and Gurugram as well. It is contesting for the entire Faridabad and Gurugram regions. The matter remains sub-judice at present. In the recent years, it has won several new geographical areas (GAs) in the 9th and 10th rounds of bidding conducted by the Petroleum & Natural Gas Regulatory Board (PNGRB), which exposes it to execution risks and large contingent liabilities in the form of performance bank guarantees submitted for meeting the minimum work programme (MWP) and service standards. Notwithstanding the impact of the pandemic/lockdowns, the work progress on these GAs has been in line with the MWP requirements, with extensions given by PNGRB. Moreover, ICRA draws comfort from IGL's established track record and extensive experience in executing CGD projects. Given its strong liquidity

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[1] Each held 22.5% stake in IGL as of June 30, 2021

profile, the company is comfortably placed to meet its commitments. ICRA also notes the company's interest in bidding for additional cities in further rounds of competitive bidding for CGD networks. If IGL were to be a successful bidder for any of the new cities put up for bidding by the regulator, ICRA will evaluate the impact of the same on its credit risk profile. IGL has aggressive expansion plans entailing an outlay of ~Rs. 1,300 crore annually over the next few years. While the large scale of the capex and the gestation period associated with build-up of sales volumes are expected to have some moderating impact on the company's return and credit metrics, the same is expected to remain robust on an absolute basis.

The Stable outlook reflects ICRA's expectation that IGL will continue to benefit from steady demand outlook, strong market position and expansion of its CGD infrastructure across GAs, resulting in healthy internal accruals and liquidity position.

Key rating drivers and their description

Credit strengths

Current exclusive position in Delhi with respect to infrastructure – IGL is the exclusive distributor of CNG and PNG in the NCT. By the provisions of the PNGRB Act, the company enjoys infrastructure exclusivity in the NCT for a 25-year period, i.e., till December 2023. Moreover, for other GAs, the company has market exclusivity right of five years (for GAs till the 8th round of bidding) and eight years (GAs secured in 9th and 10th round of bidding), which augment its business position. In line with the authorisation for NCT, it will also have CGD network exclusivity for 25-year period for the other GAs as well.

Favourable outlook on demand growth in the CNG and PNG – Despite some moderation in demand due to the adverse impact of the pandemic, ICRA expects significant growth in CNG demand over the medium to long term, given the growing vehicle population in the NCT and NCR. The current low levels of CNG penetration, continued regulatory push driving commercial vehicle segment demand and favourable economics supporting voluntary demand from the private vehicle segment are positive factors too. Going forward, the company would continue to incur capex to expand its PNG network and coverage. Moreover, healthy growth is expected given the favourable demand drivers. The same include the expected continuance of the power deficit situation, requirements of high quality heat and power and other benefits of using gas instead of liquid fuels. Low maintenance, low investment in storage and favourable economics of conversion will stimulate and sustain the demand for gas.

Robust financial risk profile – IGL's financial risk profile remains robust, as marked by sizeable scale of operations, strong cash accrual generation, comfortable liquidity profile and capital structure, translating into healthy debt protection metrics. Despite significant dip in sales in Q1 FY2021 due to adverse impact of the pandemic/nationwide lockdowns, it reported strong recovery in sales with an OI of Rs. 4,940.8 crore in FY2021 (Rs. 6,485.3 crore in FY2020). However, the overall cash accrual generation for FY2021 was largely in line with the previous fiscal supported by sizeable margin expansion due to lower gas prices during the fiscal. There was some moderation in revenue in Q1 FY2022 owing to the second wave of the pandemic, though the impact was significantly lower as compared to the first wave. IGL is expected to report steady growth in the current fiscal. Moreover, the company remains debt free, with a comfortable liquidity position, supported by cash/liquid investments of ~Rs. 3,000 crore as of August 2021 end. RLNG prices have firmed up in the recent quarters and domestic gas prices are also likely to witness a sharp increase in the near term. While this is likely to lead to some moderation in margins, the impact is expected to be mitigated, to a large extent, as the company has long-term tie-ups for sourcing of gas and would be able to absorb the same through price revisions in the various business segments.

IGL benefits from its strong parentage – IGL is promoted by GAIL and BPCL each holding about 22.5% in the paid-up equity capital of the company. Both GAIL (leading natural gas transmission company) and BPCL (leading OMC) are dominant companies with deep understanding experience and expertise in the sector. It benefits from the technical/management support from its promoters as well as operational synergy, given that GAIL is the key supplier of natural gas for IGL.

Protection afforded by the regulations under the PNGRB Act – Under the PNGRB Act, 2006, new entrants/incumbents will enjoy monopoly with regards to network provision for 25 years and marketing exclusivity for five years, both from the date of authorisation and allow (network and compression) charges to be levied to enable the incumbent to earn 21% (pre-tax) RoCE.

Credit challenges

Regulatory risks with respect to authorisations in the NCR region – PNGRB is the regulator organisation for CGD business in India and all the CGD players (including IGL) are subject to the regulations issued by PNGRB from time to time. IGL's CGD operations in Delhi, Noida, Greater Noida and Ghaziabad have been authorised by the Central Government. Moreover, the Central Government has authorised IGL's CGD operations in Faridabad and Gurugram. It is presently contesting for the entire Faridabad and Gurugram regions, however, the matter remains sub-judice. Thus, the impact in this regard remains uncertain as of now.

Exposure to project execution risks and associated contingent liabilities – IGL is executing CGD projects in several new GAs such as Kaithal (Haryana), Ajmer, Pali and Rajsamand (Rajasthan) and Kanpur (rest), Fatehpur and Hamirpur (Uttar Pradesh), Rewari, Hapur and Karnal, which exposes it to execution risks associated with setting up of CGD projects in a new geographies. Moreover, the large contingent liabilities in the form of bank guarantee submitted against these projects as performance guarantees for meeting the MWP and service standards remain a risk. Notwithstanding the same, ICRA draws comfort from IGL's established track record and extensive experience in executing CGD projects. Given its strong liquidity profile, the company is comfortably placed to meet its commitments.

Increase in competitive risks from third party marketers in the NCT region following expiry of marketing exclusivity – The NCT region is the key revenue generator for IGL. With expiry of the marketing exclusivity in the NCT in December 2011, the company remains exposed to competition from third party marketers. However, it continues to benefit from the first-mover advantage and steady development of CGD infrastructure undertaken by it in this region. Moreover, any new entrant wanting to utilise IGL's CGD infrastructure is likely to face high entry barriers in the form of sourcing of gas at competitive rates, operational issues related to retail management and moderate returns, in case of low sales volume.

Liquidity position: Superior

IGL's liquidity profile is **superior** supported by healthy cash accruals, large cash and liquid investments (~Rs. 3,000 crore as of August 2021 end), nil debt and negative net working capital intensity. Although its capex plans are expected to remain high going forward, the healthy cash accruals and large cash and liquid investments are likely to sustain the comfortable liquidity position.

Rating sensitivities

Positive factors – N.A.

Negative factors – i) Any large debt funded acquisition or slippage from MWP commitments leading to large penalties ii) any adverse regulatory developments impacting the revenues and profitability iii) any significant decline in profitability emanating from competition from 3rd parties on open access basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating methodologies for City Gas Distribution companies
Parent/Group Support	Not Applicable
Consolidation/Standalone	Standalone

About the company

IGL was set up in 1998 by GAIL, BPCL, the Government of Delhi and a few institutional investors, following a Supreme Court directive to GAIL to set up CNG infrastructure in the NCT. The company came out with an Initial Public Offering (IPO) in FY2004 as an 'offer for sale', wherein the institutional investors sold off their stake resulting in a change in shareholding structure. Currently, GAIL, BPCL and the Delhi Government hold 22.5%, 22.5% and 5%, respectively, in the paid-up equity capital of the company, with the rest held by other investors. IGL is the exclusive distributor of CNG and PNG in the NCT with CNG constituting ~74% of the company's total sales volume. Going forward, IGL has sizeable expansion plans both for augmenting its network in the NCT, as well as expanding its presence to contiguous areas such as the NCR (Noida, Greater Noida, Ghaziabad and Gurugram) and other GAs such as Rewari, Karnal, Kaithal, Ajmer, Pali and Rajsamand districts (Rajasthan), Kanpur (Rest), Fatehpur and Hamirpur Districts (UP), Hapur (UP) and Meerut, Shamli and Muzaffarnagar (UP).

In CY2013, the company acquired 50% equity stake in Central UP Gas Limited (CUGL) for a total consideration of Rs. 69 crore. The acquired entity CUGL is the authorised CGD operator at Bareilly, Jhansi, Unnao and Kanpur in Uttar Pradesh. In CY2014, it acquired 50% equity stake in Maharashtra Natural Gas Limited (MNGL) for a total consideration of Rs. 190 crore. MNGL is the authorised CGD operator for Pune, including Pimpri-Chinchwad and adjoining contiguous areas of Hinjewadi, Chakan and Talegaon in Maharashtra.

Key financial indicators (audited)

	FY2020	FY2021
Operating Income (Rs. crore)	6,485.3	4,940.8
PAT (Rs. crore)	1,136.5	1,005.7
OPBDIT/OI (%)	23.5%	30.0%
PAT/OI (%)	17.5%	20.4%
Total Outside Liabilities/Tangible Net Worth (times)	0.4	0.5
Total Debt/OPBDIT (times)	-	-
Interest Coverage (times)	187.7	130.9

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Source: Company, ICRA Research; All ratios as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2018
					September 15, 2021	August 10, 2020	October 17, 2019	October 12, 2018
1	Long Term/Short Term Limits-Fund Based/Non Fund Based	Long Term/Short Term	4000.0	NA	[ICRA]AAA (Stable)/[ICRA] A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+
2	Long Term/Short Term Limits-Unallocated	Long Term/Short Term	-	NA	-	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long Term/Short Term Limits-Fund Based/Non Fund Based	Simple/Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Bank Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
ICICI Bank	Long Term/Short Term - Fund Based/Non Fund Based Limits	NA	NA	NA	80.0	[ICRA]AAA (Stable)/[ICRA]A1+
Axis Bank	Long Term/Short Term - Fund Based/Non Fund Based Limits	NA	NA	NA	1,230.0	[ICRA]AAA (Stable)/[ICRA]A1+
IDBI Bank	Long Term/Short Term - Fund Based/Non Fund Based Limits	NA	NA	NA	22.0	[ICRA]AAA (Stable)/[ICRA]A1+
HDFC Bank	Long Term/Short Term - Fund Based/Non Fund Based Limits	NA	NA	NA	35.0	[ICRA]AAA (Stable)/[ICRA]A1+
IDFC Bank	Long Term/Short Term - Fund Based/Non Fund Based Limits	NA	NA	NA	80.0	[ICRA]AAA (Stable)/[ICRA]A1+
Indus Ind Bank	Long Term/Short Term - Fund Based/Non Fund Based Limits	NA	NA	NA	2553.0	[ICRA]AAA (Stable)/[ICRA]A1+

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis: Not applicable

ANALYST CONTACTS

Sabyasachi Majumdar
+91 145 4545 304
sabyasachi@icraindia.com

Prashant Vasisht
+91 124 4545 322
prashant.vasisht@icraindia.com

Ankit Jain
+91 124 4545 865
ankit.jain@icraindia.com

Deepak Jotwani
+91 124 4545 870
deepak.jotwani@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches